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Weekly Summary

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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THE MIDDLE EAST

THE EFFECTS OF DISENGAGEMENT

In Egypt

1,5 Throughout Secretary Kissinger's week of negotiations, the Cairo press has sounded an optimistic note about prospects for a satisfactory disengagement agreement. The agreement announced on January 17 will now allow the resumption of domestic and diplomatic activity that had been held in abeyance while the extended negotiations proceeded. President Sadat, for instance, has apparently been awaiting the conclusion of this round of negotiations before moving ahead with an impending cabinet reorganization, and Foreign Minister Fahmi has had to postpone a trip to Moscow originally scheduled to begin last weekend.

5 Sadat may now also visit several neighboring states in an effort to bring other Arab leaders up to date on the status of negotiations and, more importantly, to coordinate the next round with Syria. Press sources have indicated that Syria, Saudi Arabia, and Kuwait will be on Sadat's itinerary, and President Bourguiba has told the US Embassy that Tunisia will be included as well.

In Syria

4 Syria threatened to sever diplomatic relations with Cairo on Thursday after the announcement of the Israeli-Egyptian disengagement agreement, according to a press report from Damascus. If the report is true, it indicates President Asad was pulled up short by hard-liners in the military and Baath party who strongly oppose negotiations with Israel.

Asad's own position may have been seriously weakened by this turn of events. Only a few days ago, the Syrian President seemed ready to enter negotiations. Asad was said to have told a special conclave of Syrian political party leaders that Syria would attend the Geneva conference. To underscore the decision, he reportedly named the delegation and said he intended to reshuffle the cabinet. Most prominent among those who had been rumored for replacement was Foreign Minister Khaddam, a hard-liner who reportedly had threatened to resign rather than represent Syria at the peace talks.

In Israel

10 Mrs. Meir's caretaker government came under stronger attack from domestic critics for

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what they saw as its readiness to make unilateral concessions in the negotiations with Egypt.

The rightist Likud bloc, emboldened by its recent electoral gains, charged the government with conducting the talks through Secretary Kissinger as if Israel had no choice but to "surrender in stages." Likud claimed the talks were leading only to a unilateral withdrawal endangering Israeli security, and demanded that the agenda for the opening session of the newly elected Knesset on January 21 include a discussion of the government's proposals. Mrs. Meir agreed on January 16 to make a statement to the Knesset on the separation of forces negotiations and on the country's security condition.

The Israeli press, too, expressed misgivings, alleging that even US security guarantees might be insufficient to compensate Tel Aviv for withdrawing from the Suez Canal without an agreement from Cairo to thin its forces on the canal's east bank.

Meanwhile, efforts to form a new coalition government moved ahead. According to press reports, Prime Minister Meir's Labor Alignment hopes to conclude the negotiations by the end of next week. The major stumbling block apparently is reconciling the divergent views on religious matters held by the Alignment's prospective coalition partners—the religious parties and the liberals—rather than the peace negotiations with the Arabs.

The Alignment gained a measure of additional weight in the complex Israeli political equation when two Arab parties that had previously been only affiliated with the Alignment formally merged with it. Although these parties would have continued in the coalition, their entry raises the Alignment's Knesset total to 54 compared with 39 for the opposition Likud bloc.

In addition, three Knesset members who were elected under the Civil Rights list have agreed to form a parliamentary bloc with the Alignment's liberal coalition partner, the Independent Liberal Party. This enhances the liberals' bargaining power in the negotiations for a new

coalition, particularly with regard to the conservative National Religious Party.

AT THE FRONT

15 [As Egypt and Israel this week pursued a breakthrough on the disengagement problem, and cease-fire violations continued on both fronts. On one occasion, sporadic firing on the Golan Heights escalated into an artillery duel in which one Israeli soldier was killed. The Israelis also at least once shelled fedayeen positions inside Lebanon?

15 [On the Suez front, UN observers reported violations along the entire length of the canal. Limited tank and artillery exchanges were reported in both the northern and central sectors?

12 [In response to Egyptian cease-fire violations, Israeli troops halted several of the daily supply convoys to Suez and the encircled Egyptian Third Army. Defense Minister Dayan had publicly warned on January 14 that Israel might stop the convoys if the cease-fire violations continued. Israel has suffered over 150 casualties in the fighting on the Egyptian and Syrian fronts since the October cease-fire went into effect.?

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Israel, meanwhile, placed new commanders in charge of its forces on both the Syrian and Egyptian fronts. Major General Gur, chief of the Israeli military negotiating team in Geneva, assumed command of the northern front. Major General Adan, who led one of the armored divisions that broke through to the west bank of the Suez Canal, took over the southern command. Both are highly capable professionals. It is unclear if Gur will retain his post on the Geneva negotiating team.

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Aleksandr Solzhenitsyn and family

THE USSR

MORE ATTACKS ON SOLZHENITSYN

20 17 [The official campaign against dissident author Aleksandr Solzhenitsyn gained impetus last week. The central press finally took up the cudgels against him, more than two weeks after the publication in Paris of *Gulag Archipelago*.]

12 [On January 13, *Pravda* became the first major newspaper to weigh in, printing a lengthy signed article attacking Solzhenitsyn as a "slanderer." Later in the week, *Literaturnaya Gazeta*, the journal of the Writer's Union, which expelled Solzhenitsyn in 1969, featured a similar major attack. These charges were echoed by other newspapers and the broadcast media.]

20 17 [Perhaps in an effort to counter the widely heard Western radio broadcasts, which have given heavy coverage to Solzhenitsyn and his latest book, the Soviet campaign focused on charges likely to arouse domestic sentiment against him. He was accused of harboring pro-Nazi and pro-collaborationist views, of denigrating the wartime sacrifices of the Soviet people, of "consciously" aiding the enemies of detente, and of harboring a "pathological hatred" of all things Soviet.]

20 [Despite the increasing venom of the attacks, the Soviets have yet to take, or even threaten, direct action against Solzhenitsyn. There have been no specific indications that he will be held criminally liable under the provisions of the new Soviet copyright legislation, even though he has been accused of sending his books out of the country illegally.]

17 [The Soviets probably are restrained from taking any such action by fear that a trial or imprisonment of the prestigious author could have an adverse impact on detente. The media have indirectly hinted as much, and a *Pravda* deputy editor made the point openly in a conversation with US Embassy officers last week.]

19 [Moscow probably sees the best solution to its dilemma in Solzhenitsyn's departure into foreign exile. This was the view of the *Pravda* deputy editor, who claimed that Solzhenitsyn would soon lose his political significance once out of the Soviet Union. Another Soviet official publicly asserted that Solzhenitsyn need not fear being held back if he were to try to settle abroad.]

18 [Solzhenitsyn, however, may not cooperate. He has adamantly refused to leave the USSR for any reason. The Soviet authorities might nevertheless attempt to induce him to do so by covert threats and intimidation, perhaps directed against his wife and children. According to Western press reports, Solzhenitsyn's wife has already received innumerable calls from an indignant "public." Solzhenitsyn is not permitted the right of permanent residence with his family in Moscow, a fact that might amplify his fears for their safety.]

BREZHNEV VISIT TO CUBA

(NO SOURCES)

General Secretary Brezhnev will soon arrive in Havana on his first visit. Plans for the visit were announced not long after Brezhnev returned from the US last summer, a sign that he saw the trip as a way to demonstrate that he is not neglecting his Communist allies.

The occasion will call for some revolutionary rhetoric, but Brezhnev's private comments to the Cubans will probably focus on the benefits of peaceful coexistence. This will not sit well with Castro, who sees dangers for his regime in Soviet-US detente.

Despite the generally good state of its relations with the USSR, Havana is not enthusiastic about Moscow's pursuit of detente with the US. The Cuban leader continues to believe he cannot afford to ease his own anti-US stance. Castro still

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points to the "threat" of US aggression in order to mobilize Cubans in support of regime policies, and he has used the economic "blockade" to explain away many of his failures.

Despite this, Brezhnev may take the line that Cuba would profit from a less intransigent attitude toward the US. The USSR, which still underwrites the Cuban economy to the tune of more than \$1 million a day, would benefit from any shift in Cuban political attitudes that brought an improvement in the island's economic position. Brezhnev, however, is not likely to press this point so strongly as to alienate the Cuban leader.

The Soviets will be eager to obtain Castro's support for another world communist conference. Preparations are already under way for a series of regional meetings of Communist parties, and there are reports that representatives of several Latin American parties will meet in Havana during Brezhnev's visit.

Economic and military aid will certainly be discussed during Brezhnev's visit. Moscow's extensive use of Cuban military facilities could give Castro leverage in seeking more Soviet arms, but there has been no sign yet that major new agreements will be made.

EQUIPMENT ORDERS UP IN 1973)

(N C SOURCE)

The USSR ordered a record \$2.5 billion worth of machinery and equipment from the West in 1973—60 percent more than in 1972. This level of orders in the face of an all-time high currency deficit reflected the strength of Soviet demand for advanced Western equipment as well as Moscow's better access to new sources of credit—notably in the US.

US firms received orders for \$435 million worth of machinery and equipment, excluding several large orders awarded to US subsidiaries in Europe. Italian sales increased the most, thanks to a \$500-million contract for chemical plants. West Germany and France remained close competitors with the US for Soviet business, while Japan, Sweden, and the UK lagged well behind.

Equipment for the chemical industry accounted for two thirds of the increase from 1972 to 1973. Orders for metallurgical and consumer goods equipment also rose steeply. Much of the automotive equipment (second in total value) will be installed in the giant Kama truck plant. Since most equipment imports are connected with major plans for capital expansion, deliveries will stretch out over several years.

To finance the machinery and equipment, the USSR has insisted on long-term credits at low interest rates, guaranteed by Western governments. Italy extended a \$600-million line of credit early in 1973 and France \$350 million in July. By the end of 1973, the US Export-Import Bank had given preliminary or final approval for loans totaling more than \$300 million. An equal amount is to be loaned by private US banks.

Several major projects remain in the discussion stage, including another truck plant, several chemical plants, appliance factories, tire plants, and a commercial aircraft plant. Moscow's purchases of foreign equipment thus will continue at a high level in 1974.

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Soviet Machinery and Equipment Orders, by Type

	Million US \$	
Type	1972	1973
Chemical	250	875
Motor vehicle manufacturing	285	485
Metallurgy and metalworking	55	330
Consumer goods manufacturing	10	190
Petroleum refining and pipeline	220	160
Timber and wood processing	110	135
Ships and marine	110	95
Electronics	50	50
Textiles	45	35
Food processing	15	10
Mining and construction	110	5
Other	320	160
Total	1,580	2,530

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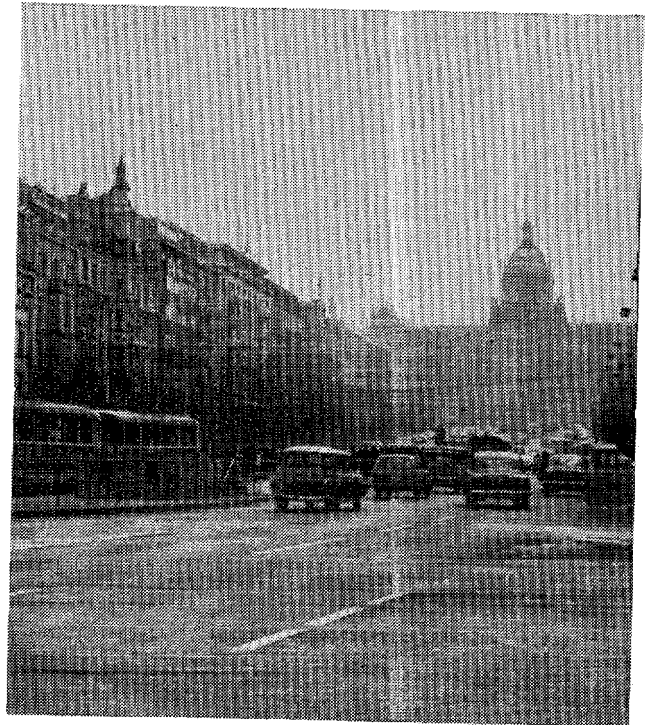
COMMUNIST PROPAGANDISTS MEET

24 [Moscow used the meeting of party propagandists in Prague last week to take another step toward convening a world conference of Communist parties. The Kremlin's interest in seizing the propaganda initiative is shown by the effort it put forth to persuade representatives of 67 Communist and workers' parties—minus Yugoslavia and the ruling Asian parties—to come to Prague as well as by the fact that the meeting closely follows last month's session of top ideologists in Moscow.]

22 [Soviet speakers, as is often the case, left it to their loyal allies to call for another world conference and to criticize the Chinese party. Soviet party secretary Ponomarev, the highest ranking delegate at the meeting, limited himself to asserting that the "struggle" for detente and the "crisis of capitalism"—which he claimed has been made much more acute by the economic and social dislocations arising from the energy crisis—create new opportunities to propagandize "real" socialism.]

24 [These remarks echo Brezhnev's recent emphasis on countering the influence of Western ideas on the Soviet and East European peoples. Ponomarev, who is responsible for relations with non-ruling Communist and workers' parties, exhorted the delegates to join in the effort. He lauded the Moscow conference of Communist parties in 1969, but he only hinted that another world meeting would be appropriate by alleging an increasing interest in multilateral meetings of Communist parties and by citing a need for closer coordination of policies.]

22 [By contrast, Czechoslovak party secretary Vasil Bilak, a hide-bound conservative, pointedly called on the delegates to prepare for a future meeting. His call, the first by any member of the Czechoslovak hierarchy, is the third such summons to come out of an East European party in recent weeks. The Hungarian and Bulgarian party chiefs urged a similar course last month.]



Wenceslas Square in Prague

22 [Bilak's speech further differed from Ponomarev's in its harsh condemnation of Peking, the strongest such declaration recently heard from Eastern Europe. Bilak claimed that "the ultra-leftist Maoist leadership has departed for good from Marxist-Leninist positions and stands on an anti-Soviet and anti-socialist platform."]

21 [The communique summarizing the Prague talks failed, however, to mention either a future world meeting or the problem posed by Peking. Omission of these contentious points probably reflects Moscow's desire to avoid antagonizing some parties. Romanian participants, either alone or together with other conferees, almost certainly opposed any reference to China in the communique.]

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YUGOSLAVIA: UNIVERSITY DEFIANCE

25 [The Yugoslav leadership is moving to rein in Belgrade University professors, who are among the few remaining outspoken critics of regime policies. If mishandled, however, the party's determined effort to tighten control over the academic community could heighten unrest at the universities]

27 [The issue at hand is Tito's two-year-old demand for the firing of ultra-liberal professors at Belgrade University. Previous party efforts to oust the professors resulted in a stalemate, as the university has a tradition of autonomy and the Serb party has been reluctant to use its muscle on campus. At the end of 1973, however, the federal party prodded local officials to begin an all-out drive to purge eight liberal philosophy professors]

25 [The local party is now on the verge of ousting the professors, but preparations for the purge have generated unrest among some students, whose displeasure cannot be taken lightly. In 1968, for example, student riots seriously embarrassed the regime, and any recurrence this year would be particularly damaging in view of scheduled national elections and a party congress. As in 1968, economic difficulties coupled with the party's heavy-handed tactics could anger and unify the students]

26 [According to the US Consulate in Zagreb, the Belgrade affair is threatening to spread to students in the Croat capital. On January 9, students at Zagreb University expressed their support for the eight Belgrade professors. Zagreb authorities called for a show of police strength that apparently succeeded in cowing the students. Later in the week, party officials at the city's university charged the dissident students with links to nationalists whose extremism in 1971 brought on wholesale purges of popular Croat leaders]

25 [Students all over the country began a month-long semester break this week, thereby reducing the likelihood of disturbances in the near future. When they return to school, however, the students may have a new cause for dissatisfaction. The regime this week announced a plan for

assigning all students to military training camps for three weeks each year; previously students in higher education were issued blanket deferment.

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UK: DEADLOCK CONTINUES

29 [The impasse between the government and the miners continues, but Prime Minister Heath apparently is still undecided about calling an early election. Rumors of such a move have been rampant for several weeks. Heath's advisers, as well as the press, are urging him to hold one next month to settle the uncertainty]

29 [Early this week, Heath refused to accept a proposal by the Trades Union Congress that called for the government to grant the miners pay increases beyond the government counterinflation guidelines as a "special case." In return, the Congress offered to restrain the wage demands of other unions. The government's refusal was based largely on the Congress' past inability to control its 10 million members and a suspicion that growing union militancy precludes any binding restraints]

31 [Labor Party leader Harold Wilson, who would prefer to avoid a general election at this time because of internal party problems, asked Heath to meet again with the labor leaders. The Prime Minister may do so before he makes a decision on an election because he is anxious to show the British electorate that he has explored every avenue to end the confrontation with the miners]

32 [Heath, too, would prefer to avoid an election, but pessimistic economic forecasts for the rest of his term, which runs until mid-1975, suggest that he has little choice. Although an election victory probably would not make the unions more compliant, it could give Heath a new mandate from the people on his programs to fight inflation and achieve some discipline in industrial relations. In addition, it would allow him five

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more years to try to reverse the country's economic slide.⁷

30. {An election in early February, before a new register, which includes 18-year-olds, comes into force, should give the ruling Tories an edge.
 21 Opinion polls place them slightly ahead of Labor, as the bulk of the people approve Heath's handling of the miners' dispute. The present government has an over-all majority of 15; redistricting since the last election could give the Tories as many as 15 seats more.⁷

28. {If there is an election, the Labor Party's new election manifesto will give voters an unusually clear choice. The manifesto outlines an ambitious and radical program, even though it does not justify the need for such measures or explain how they will be implemented. The document reiterates Labor's call for massive extension of public ownership, including North Sea gas and oil, and proposes mandatory price and voluntary wage controls. The party also pledges to renegotiate EC membership, reduce defense spending, and remove US Polaris bases from the UK.
 [REDACTED]

THE NINE CONSULT

EC Council (no source) meetings in Brussels this week focused on discussion of attitudes toward the oil users' conference in Washington next month. The topic played a role in the political consultations of the Nine in Bonn on January 10-11 as well.

The council agreed that Commission President Ortolí and West German Foreign Minister Scheel, in his role as council president, would represent the community at the conference. The member countries, with the possible exception of France, will also send representatives. Foreign Minister Jobert said Paris still had reservations; he may be seeking to enhance French bargaining strength in the negotiations prior to the next council consideration of a common EC energy position on February 4-5.

Paris is concerned that the Washington conference will confer too important a role on the US and also lead to a climate of opinion that

would be unfavorable to the bilateral deals now being worked out between France—as well as other consumer states—and the Arab producers. In constantly warning that the energy action group could set the consumer countries against the producers, Paris hopes to gain as much credit as possible with the latter. The French want to move international energy consultations into the OECD—or even the UN—as quickly as possible and to limit such talks to long-term goals.

In Bonn, the EC political directors had already agreed that President Nixon's invitation was an important and major initiative. The Nine also discussed the community's own future relationship with the Arab countries. In the wake of a political settlement in the area, the Nine foresee possible aid and cooperative arrangements, as well as a role in guaranteeing the peace.

In Brussels, the council spent long hours discussing the amount and allocation of a fund for the development of poor regions in the community, but agreement remained elusive. At the earlier Bonn meeting, Paris had made clear that it objected to the West German proposal, which would reduce the over-all amount involved, cut the French share of the payout sharply, and increase the percentage of the fund going to the three poorest EC countries—Italy, Ireland, and the UK.

At a parallel meeting of the EC Council of Agricultural Ministers on January 14-15, the French demanded—and staged a minor “walkout” when they were voted down—an immediate EC price hike for beef and an embargo on beef imports in order to help French producers. The West Germans had suggested before the meeting that France's refusal to go along with their proposal for regional aid would cause the council to delay action that the French wanted in the agricultural area.

Consultations among the Nine are becoming wider in scope, both at council meetings and within the political framework. The meetings also promise to be increasingly frequent, although the lack of a secretariat will hamper the effectiveness of political consultations.
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ITALY: THE POLITICS OF DIVORCE

36 [It is almost certain that the long-postponed national referendum to cancel the divorce law will be held this spring. If no way is found to avoid the referendum, the accompanying political campaign could destroy the fragile unity of Prime Minister Rumor's center-left coalition, polarize political parties, and reverse the "soft" opposition policy followed for the last six months by the powerful Communist Party.]

Socialists will seize on this aspect of the campaign to transform it into an anti-fascist crusade.]

36 [The Neo-Fascists are the only ones eager for the contest, primarily because it will return them to the spotlight and allow them to pose as defenders of the church at a time when their movement appears to be losing momentum.]

36 [The issue has been a contentious one since 1970, when a Socialist-sponsored bill legalizing divorce was pushed through parliament over the strong opposition of Italy's largest party, the Christian Democrats, and the bitter protests of the Catholic Church. The next year, however, anti-divorce groups collected enough signatures to schedule a national referendum on the bill. Politicians on both sides of the question are unenthusiastic about the referendum, and most have welcomed various postponements that have put off the vote. The last chance of avoiding the issue was ended late last year when the Constitutional Court upheld the law, thus keeping the referendum on the docket.]

36 [The Communist Party fears that it will lose more than it will gain from a divisive battle over the divorce question. Since the revival of the center-left coalition formula last July, the Communists have followed a policy carefully tailored to demonstrate that the country's problems cannot be solved without their help. Most Italians realize, for example, that the Communists have used their influence with organized labor to aid the government's economic recovery program.]

33 [Many political leaders fear that the referendum will force the governing parties into public battle over an issue that has little bearing on the country's pressing economic and social problems. Debate over how to handle the referendum has already shattered the show of unity that has characterized relations among the parties since Rumor took office last summer. In recent days, the Socialists sharply attacked the Christian Democrats for their rejection of a Socialist proposal that would have canceled the referendum by negotiating a substantial change in the law.]

36 [A key element of recent Communist strategy has been to emphasize the goals they share with Italy's governing parties. They have gone so far as to propose a "historic compromise" between their party and the political establishment—as clear a pitch as the party has ever made to participate in the national government. At the same time, the party has stepped up its efforts to improve relations with the Catholic Church. The divorce referendum would reverse these initiatives by dividing the parties along left-right lines and accentuating the distance that remains between the Communists and their major opponents.]

36 [By refusing to compromise on the divorce issue, the Christian Democrats are pitting themselves against all three of their coalition partners. They will also find themselves in the uncomfortable position of being on the same side of the issue as the Neo-Fascists. The Communists and

34 [Although a portion of the Christian Democratic rank-and-file is opposed to the referendum, the party leadership claimed this week that "only a miracle" could avert the confrontation. A sharp and sudden deterioration of the economic situation is one circumstance that could compel the parties to iron out their differences or at least wage a more subdued campaign.]

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VIETNAM

An Uneventful Tet

53 [The Year of the Tiger begins next week and it may come in like a lamb. Both Communist and government forces have been placed on alert for the three-day Tet holiday that begins on January 23, but there are few signs of significant military action outside of the central highlands.]

55- [There are some low-level reports of Communist plans for major action at Tet, but this probably reflects only an effort to ensure combat readiness. Most of the evidence points to a holiday marred only by the usual rash of minor incidents—local commanders taking advantage of a tactical situation or actions by enemy units that never got the official word to stand down.]

55- [After Tet, the pace of military action will probably pick up.]

64 [Immediately after Tet, however, the action may amount to nothing more than countering South Vietnamese operations and keeping up Communist pressure in areas where the fighting has been heavy for months.]

55- [This week's action in Pleiku Province is typical of the sort that may well continue. Early in the week, elements of the South Vietnamese 22nd Division recaptured Plei Djereng, the border outpost overrun by the North Vietnamese late last September. Communist resistance was light at first, but heavy fighting is now going on over control of both the outpost and the highway leading to it.]

55- [The Communists also attacked in Kontum Province during the week, probably in an effort to draw off government troops from western Pleiku. Local units in Pleiku have also begun cutting key highways in the province intermittently.]

Amending the Constitution

50 [President Thieu is moving ahead with a series of constitutional amendments designed to strengthen the presidency. The National Assembly is now considering three: one puts off any popular election of province chiefs until after the

current presidential term; another changes the method of selecting Supreme Court justices; and the third permits him to run for a third term in 1975. His supporters believe they have the necessary votes and expect all three amendments to be approved on January 19.]

51 [Thieu reportedly had not planned to move until late this year, but he apparently feels he is in a strong enough position to go ahead now. He may believe this is a good time to act because any opposition maneuvering is likely to be overshadowed by the Tet holiday. He may also fear that if military and economic conditions deteriorate later in the year, it would lessen his ability to push the changes through.]

51 [Thieu remains concerned about a possible adverse reaction in the US. Partly to head off criticism from this quarter, he is moving to help an opposition party meet stiff registration requirements. The party, the Social Democratic Alliance, was given provisional status for one year last March. It has been hampered by serious internal rivalry, and there were signs that it might disband. A close presidential aide says that province chiefs will be instructed to certify that Alliance chapters have met the membership requirements even if in fact they have not.]

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CAMBODIA: MILITARY BALANCE SHEET

(NO SOURCES)

Fighting centered in the Phnom Penh area again this week. The Cambodian Army's counter-attack northwest of the capital's airport faltered in the face of stiff resistance, despite concentrated government artillery and air strikes. Khmer Communist troops still hold several villages within five miles of the airport. Army and insurgent troops fought to a standoff on Route 5 just above the government oil storage facility five miles north of Phnom Penh.

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The Communist dry season campaign, which is only in its sixth week, has produced mixed results elsewhere. The insurgents have maintained control over sections of Routes 4 and 5. They have not made a serious effort to interdict vital Mekong resupply convoys, however, and have allowed Phnom Penh to build up its reserves of rice and military POL supplies. Aside from putting pressure on the southern provincial capital of Takeo, the Communists have yet to launch any strong attacks on major government strongholds in the countryside. As long as they concentrate on the Phnom Penh region, the Communists probably will be unable to mount any offensives against such important cities as Battambang and Kompong Cham.

The Communists' performance thus far in the dry season indicates that, among other things, they have not yet been able to offset fully last year's heavy losses of experienced personnel. [REDACTED]

conomic "imperialism." The student activists also used the occasion to criticize the US, claiming the recent CIA incident to be an example of US interference in Thai domestic affairs. Some 3,000 students broke away from the main body of demonstrators to stage an orderly protest in front of the US Embassy]

65 [The students disbanded after being assured that their views would be heard by Prime Minister Sanya, but they are continuing to demand that the government issue a formal protest to the US. Anti-US feelings are not confined to Bangkok. In the provincial capital of Udorn, the site of a major US air base, some 500 students marched on the US Consulate to demand the shutdown of all US bases in Thailand.]

66 [Student activists have long harbored anti-US sentiments, but until last week, their preoccupation with domestic affairs had kept these feelings from surfacing. Unless the government now makes some gesture to mollify the students, the honeymoon may be over.]

67 [Army chief Krit Sivara and Prime Minister Sanya have privately expressed concern over the instability caused by the student demonstrators, and Krit has said he is ready to use his troops if the King and the Prime Minister ask him to do so. Unless the demonstrations escalate well beyond current levels, however, the government will probably confine itself to public hints of possible military intervention and hope that this will keep the students off the streets. [REDACTED]

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THAILAND: STUDENT PROTESTS CONTINUE

65 [Events of the past week indicate anew that the student protest movement will remain a feature of Thai politics for the foreseeable future. The arrival of Japanese Prime Minister Tanaka in Bangkok on January 9 prompted over 10,000 students to demonstrate against Japanese eco-

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Japan - Southeast Asia

TANAKA'S TOUR ACHIEVES LITTLE

- 68 [Prime Minister Tanaka's tour of Southeast Asia, undertaken to improve Japan's image abroad, had the opposite effect of highlighting local hostility to the Japanese and their economic practices. In Thailand and Indonesia, the visit sparked violent and widespread student protests, and Tanaka's public statements did nothing to alleviate the resentment. In Singapore, Malaysia, and the Philippines, the reception was not unfriendly, but achievements were apparently minimal.]
- 71 [maintaining assured access to the resources of one of the world's best-endowed nations.]
- 68 [Elsewhere in the region, Tanaka was not as generous. He carried the unwelcome message that Japan's own energy conservation measures and general belt-tightening might well mean diminished exports of steel, cement, fertilizer, plastics, and other Japanese products to Southeast Asian markets, as well as cutbacks in project aid and other economic assistance.]
- 71 [Jakarta was the most important stop from the standpoint of Japanese interests. Indonesia is not only a major source of oil for Japan, but is its largest trade and investment partner in Asia. During talks with President Suharto, according to press reports, Tanaka promised to assist Indonesia in completing the long-discussed Asahan power project and to provide some \$200 million to start the ball rolling on a natural gas deal that had been arranged earlier. Tokyo has also shown new interest in a number of smaller industrial projects desired by the Indonesians. Indonesia clearly fared better than the other Southeast Asian countries, reflecting Japan's overriding interest in
- 69 [In attempting to mollify student elements in Bangkok, Tanaka accepted demands for an open dialogue that proved counterproductive. Staging was poorly handled, and Tanaka's responses demonstrated little understanding of the students' viewpoints. A similar session scheduled for Jakarta was canceled.]
- 71 [There is recent evidence of distaste for the Japanese presence on the part of some Southeast Asian leaders as well. Tanaka's stops included the entire membership of the Association of Southeast Asian Nations and, prior to the Tanaka trip, the Thai Government reportedly had proposed a



Indonesian students burning effigies of "economic imperialism" and "dogs of Japan"

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meeting of these countries to coordinate views on dealing with the Japanese.

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the Politburo. The rumor among diplomats in Peking is that Teng was also named to the important Military Commission, the party organization that sets military policy.

73 [Teng's assignment to the Military Commission, which is staffed primarily by military men, would be a signal that the party, although it counts several important military men among its leadership, intends to reassert civilian control over the military. It also would compensate Teng for the loss of his former post as party secretary general without posing a threat to the current front-runner for the job, powerful Shanghai boss Chang Chun-chiao.]

71 [It is probable that the main value of Tanaka's excursion will be to give the Japanese some idea of the potential costs of continuing to downgrade the needs and attitudes of the smaller nations with which Japan does business. Tokyo announced on January 16 that the government will now supervise private Japanese business interests abroad, as well as exercise much tighter control of public and private economic cooperation. In addition, there will be a series of high-level investigations of the entire problem over the next few months. In the best of circumstances, of course, positive results may not be apparent for years.]

68

71 [Tanaka's trip was planned with one eye on his slipping popularity at home. Early reactions from Tokyo indicate that Tanaka has probably failed in this objective as well. Opposition parties have, in effect, been handed another issue with which to embarrass his government.]

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CHINA: NEW OLD FACE AT THE TOP

73 [Until he was toppled in 1966, former party secretary general Teng Hsiao-ping was one of the most powerful men in China. His return last April made him the highest ranking official to be rehabilitated since the Cultural Revolution, but he was given only the limited duties of a vice premier. At the party congress last August, Teng was named to the party's Central Committee, but he was not restored to his Politburo position. Such a step had the potential for dissension, and leaders such as Mao and Chou probably gave higher priority to moves aimed at reducing the power of entrenched regional military commanders.]

73 [The addition of Teng to the Politburo underscores Peking's desire for cooperation between new and old officials at all levels of the party apparatus. Those who gained prominence during the Cultural Revolution, mostly younger officials and military men, have naturally been reluctant to give rehabilitated officials positions of responsibility. As a result, China is suffering from a lack of experienced administrators. Teng's return to the Politburo, where he joins a number of relative newcomers like Chang Chun-chiao, is a message to newer officials that returning veterans should be given an active role in political affairs. Because no one was dropped from the Politburo to make room for Teng, Peking also seems to be saying that younger officials with proven ability are not in danger of losing their jobs.]

73 [Teng, who is in his seventies, is roughly the same age as the rest of China's aging leaders. He and Chou En-lai were rivals for power in the past, but it is likely that they are now essentially in agreement on policy matters. Chou is anxious to get China on the road to modernization before Mao's, and his own, demise. He needs the help of a man like Teng, who is known for his ability to get things done. Teng, for his part, owes his political life to Mao and Chou, and he is likely to be an important asset to the premier once Mao is gone. Although Teng's elevation does not alter the succession picture over the long term, he is likely to play an important role in the immediate post-Mao leadership.]

73 28 [This objective was finally achieved last month by a massive reshuffling of regional commanders, and subsequently Teng was restored to

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TUNISIA-LIBYA: MERGER COLLAPSES

76 [Tunisian President Bourguiba and Libyan President Qadhafi announced a surprise merger agreement last weekend, but by January 15, Tunis was back-pedaling rapidly. Urged by his advisers, including Prime Minister Nour, Bourguiba has set pre-conditions that preclude implementation of the agreement in the foreseeable future.]

76 [Bourguiba's handling of the union affair will weaken his prestige in Tunisia and accelerate political maneuvering by presidential hopefuls around him. This behind-the-scenes activity will be increasingly important as preparations continue for the ninth congress of the ruling Destourian Socialist Party next October, which is to be followed by national elections in November.]

76 [Bourguiba, long a supporter of Arab unity, obviously had not thought through the merger when he signed the agreement with Qadhafi at a meeting in Tunisia. Bourguiba was evidently swayed by Qadhafi and by his own foreign minister, Mohamed Masmoudi, who has long pushed for closer ties with Libya. Three key advisers—his wife, son, and the Prime Minister, all of whom would have advised against the merger—were absent when the agreement was signed.]

76 [Tunisia's efforts to back out of the union have not drawn an official reaction from Tripoli. For the moment, President Qadhafi apparently is trying to minimize his political embarrassment by permitting only low-key press coverage of the union. According to one media account, Libya will proceed with a nationwide referendum on January 18—as originally scheduled—despite Tunisia's announcement that its referendum has been postponed indefinitely.]

76 [Once he had time for second thoughts and consultations with Nour and others, Bourguiba moved quickly to shelve the union. He replaced Masmoudi with his cabinet director and moved his first cousin and most loyal minister to the sensitive post of defense minister. In rapid succession, the merger referendum was postponed pending revision of Tunisia's constitution, the merger was publicly characterized as only a declaration of principle, and the government announced that Tunisia will never unite with Libya as long as Morocco or Algeria opposes such a union.]

THE TUNISIAN GOVERNMENT'S CONCERN ABOUT POSSIBLE MASS MARCHES ON TUNIS BY LIBYAN DEMONSTRATORS PROMPTED IT ON JANUARY 15 TO CLOSE THE BORDER WITH LIBYA.

74 [Anticipating adverse reaction to the reversal both at home and from Libya, the Tunisian Government has instituted special security measures throughout the country and has closed the border with Libya despite protests from Tripoli. On January 15, local police broke up a rally at Tunis University that had anti-Bourguiba overtones.]

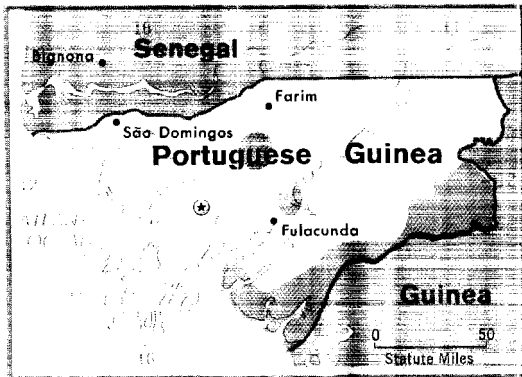
76 [The students and young professionals believe a merger would offer new job opportunities and a greater role for Tunisia in Arab affairs. By contrast, middle-class Tunisians and probably the military distrust Qadhafi and therefore oppose the union.]

76 [The silence from Libya reflects the dilemma now facing Qadhafi. The Libyan leader had originally hoped that an alliance with Tunisia would restore his prestige, which was badly damaged by the collapse of the Libyan-Egyptian union last September. The fiasco surrounding his overture to Tunisia has instead only increased his isolation from the Arab mainstream and underscored his reputation as a disruptive maverick.]

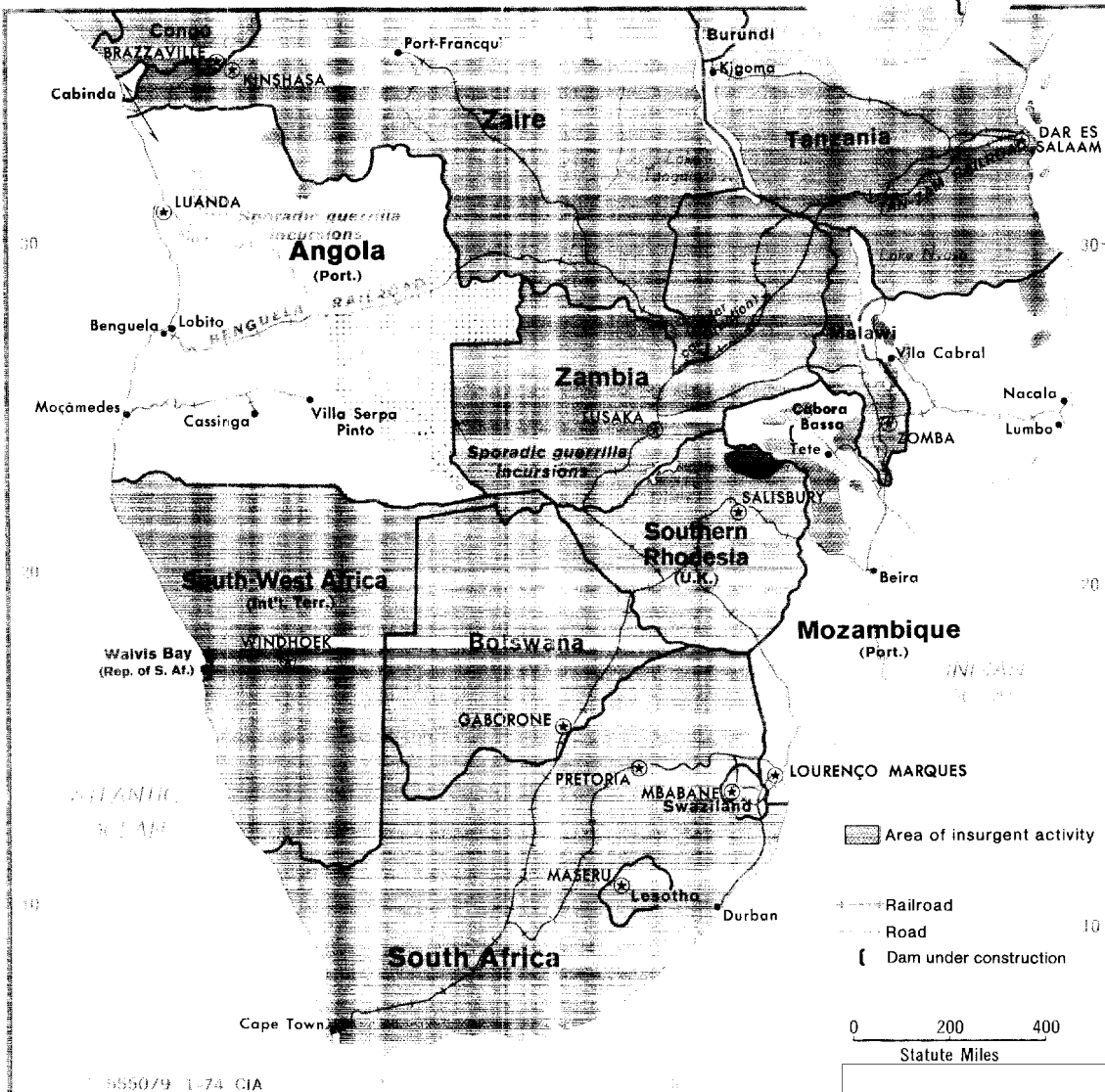
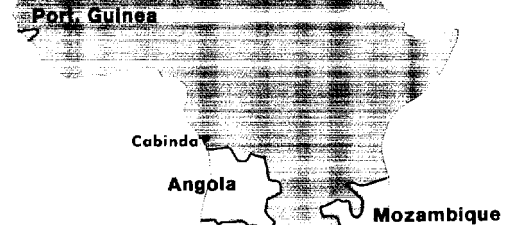
76 [This failure, coupled with the exceedingly bad press Qadhafi has received as a result of his opposition to the Geneva talks and his support for Arab terrorists, will have a strong personal impact on the Libyan leader, possibly leading to another round of resignation threats. At this point, however, Qadhafi apparently intends to accept Tunisia's rebuff passively while he struggles to regain his footing.]

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Portugal's African Territories



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Portuguese Africa

BETTER PROSPECTS FOR INSURGENTS

84 [The Portuguese are growing uneasy over what 1974 will bring in the long-stalemated insurgencies in their three African territories. In fact, rebel forces may well manage to increase pressure on the Portuguese, although probably not enough to threaten seriously Lisbon's continued presence in Africa.]

84 [The main pressure probably will come in Portuguese Guinea, long the most serious insurgency problem for Lisbon. Last year, the rebels there added a new political dimension to their decade-old guerrilla campaign when they proclaimed the province as the state of "Guinea-Bissau." Although their proclamation did not weaken Portuguese military and political control, it won diplomatic recognition from some 60 Communist, African, and other Third World states and gained admission for Guinea-Bissau to the Organization of African Unity and the United Nations Food and Agricultural Organization. A campaign by supporters of the rebel state for its admittance to the UN General Assembly was suspended in favor of seeking western support and representation in other international organizations. The campaign is likely to be resumed in the next assembly session.]

84 [In the interim, the insurgents probably will continue their military operations, which had been steadily increasing prior to the rebels' political offensive last fall. They may be planning a major campaign to coincide with the first anniversary on January 21 of the assassination of their long-time leader, Amilcar Cabral.]

81 [In Mozambique there has been a sudden & increase in rebel activity in recent weeks, including a series of unusually heavy attacks on fortified villages in Tete District, where a giant hydroelectric project is under construction. The insurgents long have wanted to disrupt the government's resettlement plan, which forms the base for its development of the district. The insurgents also have increased mining operations against Por-

tuguese rail links, including recent attacks on rail lines into Malawi and Rhodesia that heretofore had been left untouched.]

84 [In contrast, the level of insurgency in Angola has been minuscule for more than a year. Rebel forces based in Zambia have been ineffectual because of serious internal frictions that have virtually paralyzed their military operations. A rival insurgent group based in Zaire also has had internal disputes, but has been held together largely by Zaire President Mobutu's support and occasional intervention. At the same time, however, Mobutu has been restraining the group's military operations into Angola because of his dependence on Portuguese facilities to transport Zairian copper.]

REBEL FORCES MAY WELL MANAGE TO INCREASE PRESSURE ON THE PORTUGUESE, BUT PROBABLY NOT ENOUGH TO THREATEN SERIOUSLY LISBON'S CONTINUED PRESENCE IN AFRICA.

83 [This restraint may be about to be lifted. Mobutu's army is supporting a stepped-up recruitment and training drive by the Angolan insurgents.]

84 [Zairian troops recently provided cover at the border for rebels returning from a foray into Angola—a new development viewed with concern by the Portuguese. The rebels have also been promised support from China, to be channeled through Mobutu, President Nyerere of Tanzania, and President Kaunda of Zambia.]

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84 [The Arab oil embargo is further complicating Lisbon's problems in Africa, where much non-essential military travel has had to be curtailed. A broad upsurge in guerrilla activity could seriously strain Portuguese stocks. This has led Lisbon to fear an insurgent strike against the Angolan exclave of Cabinda, which accounts for a large share of Portugal's petroleum production.]

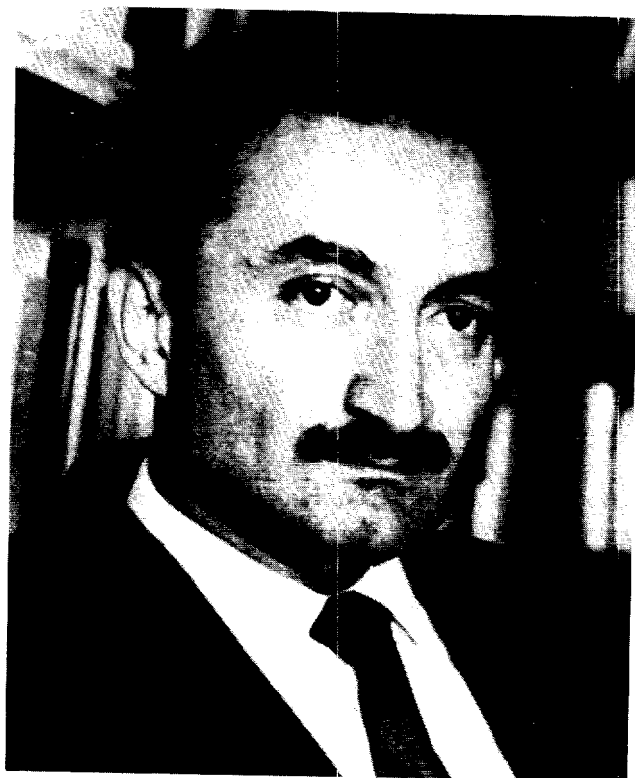
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TURKEY: FINALLY A GOVERNMENT

80 [The left-of-center Republican Peoples Party, which won a plurality in the inconclusive parliamentary election last October, and the Islam-oriented National Salvation Party finally got together this week on terms for a governing coalition. The political stalemate that has persisted since the election has thus been broken, but the prospects for the government's longevity are not bright]

80 [The coalition will be headed by Prime Minister - designate Bulent Ecevit, leader of the Republican Peoples Party, who had failed in an earlier attempt to form a government with the National Salvation Party. The two parties then were unable to agree on which would get the key Interior Ministry, and many of the conservative Salvation Party deputies had refused to accept the



Bulent Ecevit

79 alliance[In the hard bargaining that preceded the announcement this week of a coalition agreement, Ecevit apparently yielded his claim on the interior post, which reportedly will be offered to a retired, non-party general. The increasing prospect of new elections if a government could not be formed helped modify attitudes within the Salvation Party.]

80 [The army, which sees itself as the guardian of Ataturk's secularist and modernizing reforms, does not look with favor upon the traditionalist Salvation Party, and senior officers are also concerned about Ecevit's leftist tendencies. At present, the military appears willing to give the new government a chance, but the officers will be monitoring its activities very closely]

80 [The new coalition has a fragile majority of only eight seats in the National Assembly and is in a minority in the Senate, which can delay legislation. Coalition decisions will be complicated by the ideological gulf between the two parties. Ecevit himself is untested as a national leader—particularly in foreign affairs. He will probably concentrate first on resolving domestic problems and on strengthening his popular and parliamentary support. A key issue will be the fulfillment of Ecevit's campaign pledge of amnesty for political prisoners. The armed forces would be displeased by large-scale reversals of the decisions taken by martial law courts over the past three years]

80 [No major departure from Turkey's basic pro-Western foreign policy is expected. Ecevit's election platform, however, called for a more independent approach to NATO and to defense issues, reconsideration of the ban on opium poppy cultivation, and nationalization of petroleum resources. For its part, the National Salvation Party, which has reportedly received financial backing from Libya and Saudi Arabia, will press for a more pro-Arab policy.]

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CHILE: MAKING HASTE SLOWLY

90 [Opponents of the junta government succeeded in a few relatively minor acts of sabotage over the recent holiday period, but several attempted attacks on government installations were thwarted by security forces.]

90 [The opposition's failure to pull off a spectacular operation in Chile was partially offset by the sudden appearance in Havana of Carlos Altamirano, the Socialist Party leader who heads the junta's list of most-wanted fugitives. In a press conference soon after his arrival, however, Altamirano seemed to underscore the left's lack of readiness for a concerted guerrilla or terrorist campaign when he declared that, for now at least, "adventurous operations" would be counterproductive.]

90 [Disagreements over policy matters, inter-service frictions, and personal rivalries have been sparking controversy within the regime. At the junta level, there reportedly has been disagreement over when the presidency should be rotated. Army commander and current junta president Pinochet recently declared that the presidency will not be rotated, but it was unclear whether he meant now, or ever. In any case, his statement probably was not the final word on the issue.]

89 [Some progress is being made despite these preoccupations. Marking his fourth month in office on January 11, Pinochet announced the creation of a "social fund" to be used to upgrade slum living conditions. Present payroll taxes will be consolidated, raised slightly, and applied to the fund. Pinochet also announced that the government plans to get tough with merchants who persist in hoarding and price-gouging. Jail sentences will replace fines for these offenses.]

GUATEMALA: ELECTION PROSPECTS

91 [A growing number of key government and military officials, including General Laugerud, the government's nominee, believe that he will lose the presidential election on March 3 to the leftist opposition candidate, General Rios. Some of

these officials favor acting to prevent Rios' election, possibly by rigging the vote, postponing the election, or carrying out a pre-emptive coup]

96 [President Arana does not yet appear convinced that any of these actions will be necessary. If he should decide on a coup attempt, his ability to carry it off would depend heavily on the attitude of the army; presently, the middle and lower ranks are opposed to intervening in the political process. Blatant vote fraud would be difficult to hide, while a postponement of the elections would require a plausible pretext, such as serious public disorder. Arana probably still believes that his strategy of dividing the leftists and uniting the moderate and rightist vote behind Laugerud will produce the margin of victory]

93 [Still, pressures on Arana are mounting. Government campaign managers are disturbed by reports that Rios' National Opposition Front will soon pick up the substantial centrist and rightist support of two presently unaffiliated opposition groupings. Support by these groups—one led by a popular former chief of state, Enrique Peralta, and the other a faction of the moderate Revolutionary Party—would help Rios shed his leftist image in the important professional and business voting bloc.]

92 [A strengthened opposition is not the only concern of the government.]

91 [some cabinet ministers seem convinced Laugerud will lose, and they appear more concerned about making plans for a future outside the government.]

91 [The government camp is also worried about the opinion polls. While they show Laugerud leading Rios by ten percentage points, they also indicate that nearly half of the electorate is undecided. Officials fear that Rios will win over many of the undecided by blaming the government for the rising cost of living and by dwelling on government failures to stem a growing rate of crime.]

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VENEZUELA: OIL AND NATIONALIZATION

100 [Outgoing President Caldera and President-elect Perez share the view that Venezuela must capitalize on its petroleum resources during the energy crisis.]

is certain to examine the prospects for a carefully negotiated move toward total petroleum nationalization during his 1974-1979 tenure.

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98, [The latest move in this direction is the order last week that, beginning on April 8, private oil companies must deliver to the government an estimated 100,000 barrels of crude oil daily as part of their royalty payments. This oil may be used to improve Venezuela's already favorable world trade position, but much of it is likely to be sold to other Latin American countries at preferential prices. Venezuela is finding it increasingly difficult to resist using oil in its pursuit of a leadership role in Latin America, and several Central American and Caribbean island nations have been especially hard hit by the energy crisis.]

ARGENTINA: LABOR PROBLEMS BREWING

101 [A serious labor conflict in the provincial capital of Cordoba is pitting left- and right-wing trade union groups against each other in what could become a major test for President Peron's three-month-old government. Violence has become endemic in this troublesome interior city, the country's second largest industrial center and a focal point of the long-simmering dispute between warring factions of Peron's disparate movement.]

97, [There is also rising left-wing pressure for an immediate nationalization of the country's petroleum, but this is a remote possibility although Caldera has announced, and Perez has agreed, that nationalization is likely to occur before the scheduled date in 1983. Caldera may covertly encourage leftists to initiate the lengthy nationalization process during his remaining two months in office in order to leave his successor with the resulting political and economic problems. Nationalization would require congressional action, however, and Congress is not scheduled to reconvene until a few days before the inauguration in March.]

102 [The latest confrontation grew out of a bus drivers' strike for wage increases. A settlement was negotiated to end the five-day strike, which paralyzed the city and led to violence, but this agreement shows little sign of sticking. In spite of settlement of this issue, opposition has intensified between "orthodox" followers of Peron's hand-picked national labor leadership in Buenos Aires and a coterie of radical left-wing Peronists and Trotskyists who dominate the regional labor apparatus and are supported by some high-level provincial authorities. Adding to the strains, left-wing Peronist guerrillas have issued militant appeals to workers to defy the national labor organization and take to the streets if necessary to defend their rights.]

99 [One of Caldera's principal ambitions is to leave office on a nationalistic note. This week, Venezuela made clear its intention to remain independent in setting its oil prices. Thus, at present and probably for the remainder of the Caldera administration, political factors will dominate Venezuela's relations with its petroleum customers.]

101 [The stage now is set for more trouble, and both sides seem to be headed for a showdown. Although Peron has exercised caution so far in dealing with the potentially explosive political problem in Cordoba, he apparently believes that he cannot make concessions without undermining his economic policies and jeopardizing his own authority.]

100 [Although Perez is considered even more nationalistic than Caldera, the new President may not be able to sustain the present politically motivated pricing policy. On oil matters, he will probably appoint competent technicians to policy positions and rely heavily on their advice. He also

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Cordoba is a stronghold of the Marxist People's Revolutionary Army, which has taken credit for many of the kidnappings that have plagued the Peronist government. Peron's patience with the terrorists is probably exhausted, increasing the chance that he will use the Cordoba situation as an opportunity to try for a badly needed victory against the extremists.]

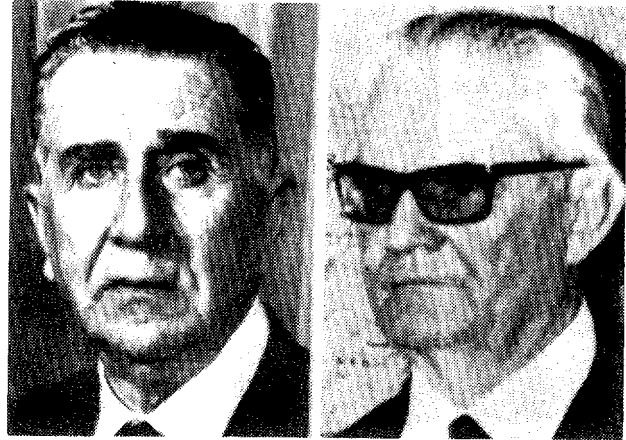
103 [The prospects for confrontation are likely to increase as Cordoba's trade union organization undertakes new leadership elections on January 20.]

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105 [Peron's "orthodox" followers in the Cordoba unions actually appear to be in a strong position to gain the upper hand, but there is a distinct possibility that the left will not be unseated without a fight. In that case, there is a good chance that the Cordoba unions will lose their legal right to exist under provisions of a tough new labor law.]

101 [Peron's scheme carries a serious risk that it might backfire and cause widespread reaction among left-wing Peronists elsewhere in the country. Disapproval would be strongest among youth, and this could trigger extensive defections from the Peronist movement. Additionally, a worsening of the Cordoba situation would be a further setback for Peron's national unity program and damage the already shaky confidence of foreign investors alarmed by the continuation of terrorist-inspired violence.]

BRAZIL: GEISEL ELECTED

(106)
[The election on January 15 of retired General Ernesto Geisel as the next president means that Brazil's policies will remain basically the same. Geisel, named last June by President Medici as his successor, was officially ratified by a special electoral college convened in Brasilia. There was never any doubt as to the outcome of the balloting, since the government party had an overwhelming majority.]



President Medici and Ernesto Geisel

Geisel, who will take office on March 15, is the fourth in a line of army generals to reach the presidency since the military took power in 1964. Like Medici, Geisel is expected to give top priority to economic development, while stressing national security and a growing Brazilian role in world affairs—including an independent, though not radically nationalistic, foreign policy.

At the same time, Geisel's style and the composition of his administration will differ from Medici's. Some Brazilian politicians feel he is basically more liberal than Medici and will be disposed to permit a gradual "democratic opening" that would restore some political activity. In addition, some local observers view Geisel as somewhat more nationalistic than Medici and therefore likely to be more cautious in his attitude toward foreign investments.

The current presidential succession process, which is unfolding according to plan, lacks the atmosphere of tension that accompanied other successions since 1964, primarily because Medici deals from a position of strength that his predecessors did not enjoy. Under his administration, economic growth has been strong and steady, while urban terrorism has declined to virtually nothing. Thus, Medici has the confidence of a broad range of top officers, the sine qua non for governing effectively in Brazil. Geisel apparently will take office with a similar advantage.

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INTERNATIONAL

SHIFTING FROM OIL TO MONEY

Preliminary reports from the Geneva meeting of the Organization of Petroleum Exporting Countries, which ended on January 9, indicate that there will be no respite before April from the high oil prices that went into effect on January 1. The Iranians, who are largely responsible for doubling the price, defended the increase as making oil prices compatible with the cost of energy from other sources. The Saudis, on the other hand, believe that the price is too high and will have disastrous effects on the world economy. Most other producers are ambivalent—happily looking forward to the inflow of wealth but also fearing that the process they have put into motion may eventually rebound against them.

The OPEC leaders called for an early meeting between major consumers and producers to discuss prices and other problems. They also resolved to establish an institution to channel aid from their oil revenues to the developing countries. They are less receptive to the developing countries' demands for a two-tier price system that would substantially lower the price of oil to developing nations.

Greater Supplies

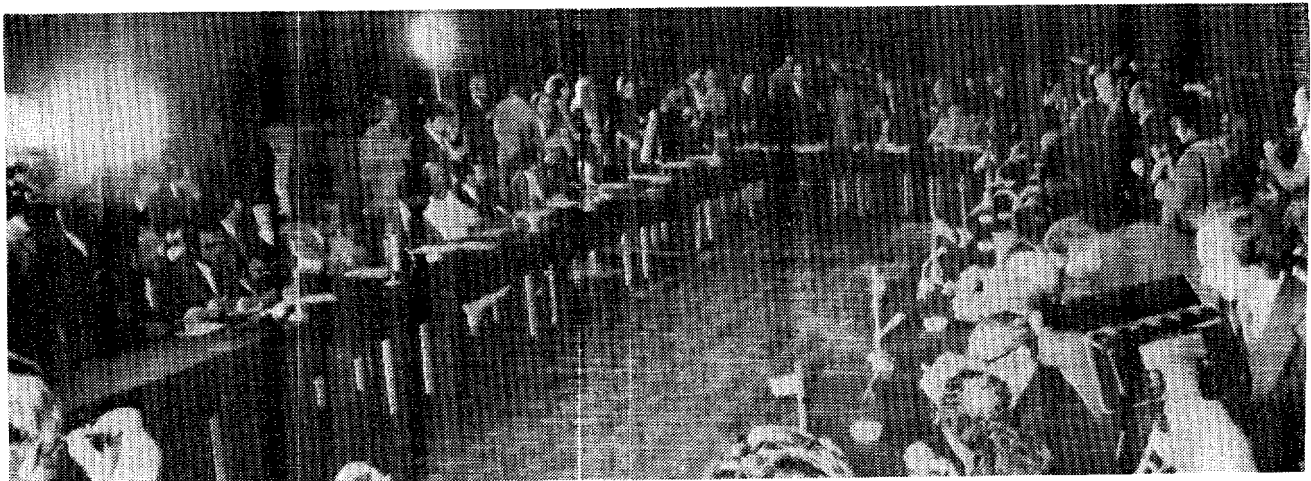
There is increasing evidence, despite the Arab position that termination of embargoes is

dependent on an Israeli commitment to total withdrawal from occupied territories, that the embargoes against the US and the Netherlands will be dropped when a disengagement of Egyptian and Israeli forces begins and that oil production will increase in the near future. Rumors persist, for example, that Saudi Arabia will unilaterally renounce the embargoes. Even if the Saudis do not make a unilateral decision, however, the embargoes and cutbacks may be abandoned—or modified out of existence—at the next meeting of Arab producers in Libya on February 14. Embargoes against Portugal, Rhodesia, and South Africa may be retained, however, to please the Black Africans.

The Arabs recognize that oil company diversions have partially offset the embargoes, sometimes at the expense of countries that supposedly were being favored. Moreover, the expansion of the favored list to include such major consumers as Japan and Belgium will make production increases necessary. The Arabs' decision on December 25 to raise January production about 11 percent will bring the Arabs up to 17.4 million barrels a day, some 15 percent below the pre-crisis level.

Impact on Importers

For consumers, cost problems have now largely replaced supply problems. Increased oil



Ministers of OPEC meet in Geneva

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prices will mean a \$70-billion increase in 1974 oil bills if, as seems likely, world oil exports approximate last year's and prices change little. Western Europe will experience about a \$33-billion increase; Japan, \$11 billion; and the US, almost \$16 billion. Only a small part of this can be offset by exports to the oil producers, by earnings from transport services, or by remittances of oil company profits.

Soaring payments for oil threaten a massive loss of purchasing power in the importing countries, equivalent to about 3 percent of gross national product in Western Europe and Japan. All face severely reduced rates of economic growth—perhaps even declining output—and increased unemployment unless expansionary measures are taken. The governments will be cautious in stimulating demand, however, because of already high rates of inflation and the uncertain impact of energy shortages on productive capacity.

International Impact

Any attempts to redress deteriorating trade balances—through import restraints or competitive devaluation—could aggravate international economic tensions. The energy problem has already eclipsed international trade and monetary negotiations. Major governments will be hesitant to move forward on reform issues until economic prospects become clearer.

World financial markets should be able to absorb the oil producers' new wealth if they continue to follow conservative investment policies. Even so, the massive buildup of funds will be a potentially destabilizing force in world exchange and financial markets. The strengthened dollar and the devalued Japanese yen stand witness to the effect of the oil crisis on exchange markets.

MONETARY DEVELOPMENTS

The Committee of ^(107 + 108)Twenty, the group charged by the International Monetary Fund with negotiating monetary reform, meets in Rome this week. It will focus on the effects of sharply increased oil prices on the world monetary situation. The views of some nations were revealed at a

closed meeting of central bankers held in Basel last week.

European bankers reportedly expressed deep concern over the viability of existing exchange rates. Most felt that the rates, once believed worthy of defense, are now outdated because of the impact of higher oil bills on each country's balance of payments. The French representative said that it is more important for the Europeans to maintain the joint float than to support their exchange rates against the dollar. A strengthening dollar would, of course, improve Europe's competitive position. The Europeans apparently are in unanimous agreement that continued floating of their currencies as a group is essential. Even Japan has reluctantly accepted the necessity for floating as an interim measure while stressing the need to return ultimately to fixed rates.

West Germany, the only European nation that has intervened heavily to hold down the dollar's recent appreciation, expressed disappointment that other European nations and the US have not done more to maintain market stability. Bundesbank spokesmen claim that German intervention would have been even greater if efforts to stem the mark's decline had not begun to strain the joint float by increasing the spread between the mark and the French franc.

The bankers did not discuss basic monetary reform in Basel, agreeing that a solution of current problems is more urgent. Some attention will be given to reform at the Rome meeting, however, which originally had been scheduled expressly for this purpose. A consensus may be developing so that a few issues, such as an international unit to replace gold as a standard of value and the future role of the International Monetary Fund, can be resolved in the near future. The French—the primary opponent of many US proposals—and perhaps the Germans have accepted this view. Nevertheless, the July 31 deadline for a draft agreement on over-all monetary reform cannot be met.

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As for the money market, the dollar has again begun to strengthen after its brief downturn last week. Both sterling and the lira fell to new lows. A decline in some German interest rates, following the Bundesbank measure to increase domestic liquidity, helped to weaken the mark. The Bank of Japan sold \$160 million on January 14 to hold the yen at 300 to the dollar.

GOLD MARKET DEVELOPMENTS

The price of gold reached a record high of \$128 an ounce at mid-day on January 17 in London. Unstable conditions on world money markets have recently increased demand for gold, and reduced Soviet sales have limited the supply.

Moscow made only small sales in October and has sold practically no gold since then, indi-

cating that its requirements for foreign exchange have been temporarily satisfied. During the first nine months of 1973, the Soviets sold about 300 tons of gold, compared with 160 tons in all of 1972. South Africa, the world's largest producer, continued to sell gold from its reserves during the last quarter of 1973 to meet its exchange needs.

Speculative demand for gold probably will remain high in 1974 because the energy crisis assures turbulent money markets. Demand for commercial and dental use is not sensitive to price changes and thus is likely to continue its slow growth. Soviet gold sales probably will drop in 1974, given the expected improvement in the USSR's hard-currency trade balance, but increased South African offerings could more than offset the cut in Soviet sales.

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